

December 19, 2017

Introduction

Registrants are gatekeepers to the capital markets. As set out in section 13.2 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**), registrants must take reasonable steps to establish the identity of a client. Further, they must ensure they have sufficient information about the client to meet their suitability obligation, including collecting information on the client's investment needs and objectives, financial circumstances and risk tolerance. The Know-Your-Client (**KYC**) obligation is an essential element of a registrant's obligation under section 13.3 of NI 31-103 to ensure clients are receiving suitable investment recommendations.¹

Sample Know Your Client Form – Individual Clients

Staff (**staff** or **we**) of the Alberta Securities Commission (**ASC**) believe there is merit in ensuring consistency in basic information collected by an exempt market dealer and used to determine suitability of investment recommendations.

The Sample Know Your Client form, attached as Annex A, outlines certain basic information necessary to help the dealing representative determine suitability of products to recommend to a client. The sample form also provides definitions of certain concepts including risk tolerance and investment experience levels, which will provide a foundation for a common understanding of these terms among investors and dealing representatives. We provide this sample form as a guide for firms in the development of their KYC information collection procedures. We expect firms who decide to use the form will tailor the sample form to ensure information collected meets the individual needs of the firm and their representatives.

The Canadian Securities Administrators (the CSA) is currently reviewing the requirements of NI 31-103 and is considering implementing material targeted reforms. If these reforms are implemented, this Sample Know Your Client form will need to be updated to reflect those changes.

Opening an Account

It is important that investors understand why dealing representatives must collect personal information from them. Staff believe that providing a document from the ASC explaining the rationale for KYC information collection and the rationale behind each piece of information

¹ Further guidance on meeting the KYC obligation is found in CSA Staff Notice 31-336 *-Guidance for Portfolio Managers, Exempt Market Dealers and Other Registrants on the Know-Your-Client, Know-Your-Product and Suitability Obligations* and CSA Staff Notice 33-315 *Suitability Obligation and Know Your Product*.

collected, may be a useful educational tool for investors. The Account Opening Information for Investors document, attached as Annex B, is intended for use by exempt market dealers and their dealing representatives, to be distributed to clients at the account opening stage. Distribution of this document is at the option of the firm.

Contents of Annexes

This Notice contains the following annexes:

- Annex A – **Sample Know Your Client form – Individual Clients**
- Annex B - **Opening an Account**

Questions

Questions respecting the Sample Know Your Client form and Sample Account Opening information for Investors document can be directed to the following person:

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Annex A

Exempt Market Dealers Sample Know Your Client Form – Individual Clients

Notes to Firms:

- SAMPLE KYC FORM** – if firms decide to use this sample form, they will be expected to tailor the form to meet the needs of their particular business structure and processes. This sample is viewed as a helpful guideline that may not contain all necessary pieces of information a firm may require.
- SECURITY OF CLIENT INFORMATION** – firms are expected to take necessary action to protect the privacy and ensure the security of client information collected. Firms should have policies and procedures in place to ensure secure storage of information as well as appropriate access restrictions and protections against identity theft and other cyber-security threats.

Sample Form Content:

Please complete the following information regarding your personal circumstances. We will use this information to assist in ensuring¹ that any recommendations we make regarding investments are suitable for you.

FULL NAME:	PHONES: cell
HOME ADDRESS:	home
DATE OF BIRTH: (DD/MM/YYYY)	business
EMAIL ADDRESS:	
S.I.N.:	CITIZENSHIP:
EMPLOYER:	OCCUPATION:
SPOUSE'S NAME:	NO. OF DEPENDENTS:
SPOUSE'S EMPLOYER:	SPOUSE'S OCCUPATION:

Are you a senior officer or director, or otherwise an insider of a company whose shares are publicly traded? Yes
 No

Do other persons have a financial interest in this account? Yes No

Are you a politically exposed person or a head of international organization (see Opening an Account document)?
Yes No

INVESTMENT KNOWLEDGE Which of the following categories best describes your knowledge of investing?

- Extensive - you have good business and economic knowledge, follow the markets regularly and have traded in and understand most types of investment securities, including securities sold by way of exemption from prospectus requirements.
- Good – you have some knowledge of the basic characteristics of both fixed income securities and common shares, as well as a basic understanding of the degree of risk and reward inherent in these types of securities.
- Limited – you have only invested in simple securities such as GICs (guaranteed investment certificates) or well-known common shares traded on an exchange, largely based on the advice of others.
- Nil.

¹Guidance for firm: KYC form should be used in conjunction with a thorough discussion and understanding of the personal and financial circumstances of the client.

INVESTMENT EXPERIENCE

- Stocks Bonds GICs Mutual Funds Exempt Securities Derivatives
- Mortgage backed securities Segregated funds (insurance product) Nil Other

Notes:

CLIENT INCOME Please note your approximate gross annual income from all sources.

\$ _____

- My annual income is relatively stable My annual income is variable

Notes:

SPOUSAL INCOME (provide here if needed for client to meet exemption criteria, otherwise separate form required for spouse’s individual account or joint account) Approximate annual income from all sources. (N/A)

\$ _____

- Annual income is relatively stable Annual income is variable

Notes:

CLIENT NET WORTH (includes spouse) Please provide an estimate of the value of your assets and liabilities.

Estimated Financial Assets - Examples – cash/savings accounts; GICs; mutual funds, stocks, exempt securities, other:
List type of financial asset and estimate of amount owned:

(A) Total Financial Assets \$ _____

Line of credit or other debt to facilitate investments or secured against financial assets

(B) Liabilities related to Financial Assets \$ _____

= Estimated Net Financial Assets (A-B) \$ _____

Estimated Non-Financial Assets

Home _____ Other Real Estate _____ Autos _____ Business Assets _____

Other (list type and amount) _____

+ (C) Total Non-Financial Assets \$ _____

Estimated Other Liabilities

Mortgage _____ Car loan _____ Credit Card Debt _____ Other _____

- (D) Other Liabilities \$ _____

= Estimated Net Worth(A-B+C-D) \$ _____

Total 'exempt securities' purchased using the offering memorandum exemption in last 12 months \$ _____

Concentration: current transaction as a percentage of estimated net financial assets _____ %

Concentration: total exempt securities currently held as a percentage of estimated net financial assets _____ %

RISK TOLERANCE This section documents your willingness and ability to assume risk.

Low I am comfortable accepting lower returns for a higher degree of liquidity and/or stability. I am seeking to minimize risk and loss of principal.

Medium I value higher long-term returns and I am willing to accept the risk of moderate losses. The ability to sell or redeem my investment (**liquidity**) is a secondary concern.

High I wish to maximize returns and I can accept the significant risk that entails. I can endure significant potential for loss. Liquidity is generally not a concern to me.

My General Risk Tolerance

_____ % Low _____ % Medium _____ % High

This Account's Risk Tolerance

_____ % Low _____ % Medium _____ % High

Notes:

TIME HORIZON FOR THIS ACCOUNT Indicate the period from now to when you will need to access a significant portion of the money you invest in this account.

Need these funds in case of emergency Less than 1 yr. 1 – 3 yrs. 4 – 5 yrs. 6 – 9 yrs. 10 yrs. or more

Notes:

INVESTMENT OBJECTIVES FOR THIS ACCOUNT

Income - My objective is to generate fixed income from investments. I am less concerned with an increase in value of my investment (capital appreciation or capital gains).

Growth - My objective is capital gains over time. I do not have income requirements from my investments.

- Balanced - My objective is a blend of growth and income.
- Capital Preservation – My objective is to save money with the least risk of loss.
- Other _____

Notes:

Source of Investment Funds: _____ Use of Leverage? Yes No

Checklist of additional information to be collected/delivered if applicable²:

Identity Verification Information:

ID type, reference number and place of issue:

ID date of expiry:

Was a current relationship disclosure document discussed with and given/sent to client?

Was offering memorandum discussed with and given/delivered to client, if applicable?

Has the client been informed about OBSI and the process required to make a complaint to OBSI?

If leverage used, did client receive the Leverage Risk Disclosure Document?

If a referral was made, was the appropriate referral arrangement disclosure provided to the client?

Has the client been informed about direct and indirect fees applicable to the proposed investment?³

If joint account then document spousal investment knowledge, investment experience, and who is primary instruction-provider

Review and sign off:

Client Date and Sign-off

DR Date and Sign-off

Compliance Date and Sign-off

Internal Use Only:

² Need separate form for corporate accounts, and consider the need for the following:

- Identity must be verified for all beneficial shareholders holding 25% or more voting shares and directors
- Corporate resolution or constating documents showing officers authorized to sign for the corporation
- Trading authorization
- List of directors (AML requirement)

Need separate form for partnership or trust accounts, and consider the need for the following:

- Identity must be verified for all individuals exercising control over the partnership or trust

Need separate form for joint accounts, and consider the need for the following:

- Spousal knowledge, objectives, identity verification

³ Other account opening considerations may include (but are not limited to):

- consents for Canada's Anti-Spam Law (CASL) receiving of commercial electronic messages
- information required under Foreign Account Tax Compliance Act (FATCA)

Notes & conclusions concerning suitability decision including concentration in single exempt issuer and concentration in all exempt product owned by client inside and outside sales by firm, suitability as relates to risk tolerance, financial circumstances, investment objectives, time horizon, age, income, etc.

Product recommended, date, why is this trade suitable for the client?

Opening an account

What is the information your dealing representative collects from you & why?



Who is the ASC?

The Alberta Securities Commission (ASC) is the independent, industry-funded provincial agency responsible for administering Alberta's securities laws. Working on behalf of all Albertans for a safe and successful capital market, the ASC's mission is to protect investors and foster a fair and efficient capital market.

The ASC regulates market participants such as exempt market dealers and portfolio managers that are in the business of trading or advising in securities, as well as investment fund managers that manage investment funds. We regulate compliance by these market participants with financial and business conduct requirements set out in Alberta securities law.

Understanding the risk of exempt market investments

Exempt market dealers only offer investments that are distributed under a prospectus exemption. Exempt market investments are generally considered high risk for a number of reasons, including limited or no ability to sell or redeem the investment, less regulatory oversight of the issuer, difficulty in valuing the investment, risk of loss and limited or no requirement to provide publicly available information about the investment.

What is your dealing representative's obligation to you?

Exempt market dealer firms employ individuals called dealing representatives who are required to be registered with the ASC. These dealing representatives are the people who will help you decide what to invest in.

Your dealing representative is required to deal with you fairly, honestly and in good faith.

To meet these requirements, your dealing representative must gather information about you in order to determine whether a potential investment is suitable for you. Your dealing representative's responsibility to determine whether an investment is suitable for you is a cornerstone of the Canadian investor protection regime.

How does your dealing representative determine whether your investment is suitable for you?

They have a meaningful discussion with you:

You and your dealing representative should start by having a comprehensive discussion about your personal circumstances, including your investment needs and objectives, financial situation, investment knowledge, experience, and risk tolerance. Your dealing representative can then offer you potential suitable investments, and explain how a proposed investment is suitable for you in light of the information you have provided.

Your dealing representative must collect certain personal information from you:

The ASC requires your dealing representative to collect the following information about you, primarily in order to help get to know you better, so that he or she can understand what investments would be suitable to recommend for your consideration. Some of the information below is also collected in order to comply with securities or tax law, or the Canadian Proceeds of Crime (Anti-Money Laundering) and Terrorist Financing Act requirements (AML Requirements). You cannot open an account with an exempt market dealer without providing certain of the identification information below.

▶ Your full name, address, contact information

- ▶ Basic information required to administer your account and help confirm your identity under securities law and AML Requirements.

▶ You will need to show proof of identity

- ▶ Required under securities law and AML Requirements.

▶ Date of birth

- ▶ Helps confirm your identity, and your age is considered in determining suitability of proposed investments. For example: a high-risk investment that does not offer liquidity for many years may not be considered suitable for someone who is elderly and requires accessible funds for living expenses in late retirement.

▶ Social insurance number (SIN)

- ▶ Needed for tax reporting purposes for investments that pay income, and
- ▶ Can be used to ascertain identity under AML Requirements.

▶ Occupation and employer

- ▶ Aids in an understanding of your personal circumstances, e.g. your financial capacity to withstand investment losses; coming to a conclusion regarding suitability of proposed investments; and meeting AML Requirements.

▶ Spouse's name, occupation and employer

- ▶ Required if the account is a joint account, in the determination of eligibility for certain prospectus exemptions, in the determination of suitability and to determine whether the dealing representative needs to consider insider trading rules when recommending trades.

▶ Number of dependants

- ▶ Useful in determining suitability, e.g. it may help understand timing of cash needs (braces, university tuition, etc.) and therefore appropriate time horizon of investment.

▶ Whether you are an insider of a public company

- ▶ Required so that the dealing representative knows whether insider trading laws must be considered.

▶ Whether someone else has a financial interest in the account

- ▶ If someone else has a financial interest in, or trading authority over, the account then name, relationship, employment, and date of birth is required for these individuals.

▶ Whether you are a politically exposed person (PEP)¹ or a head of international organization (HIO)², or a family member or close associate of a PEP or HIO.

- ▶ Required to meet AML Requirements.

▶ What is your investment knowledge and experience?

- ▶ Helps the dealing representative understand how best to communicate with you and assess your potential level of reliance on advice given to you.

CONTINUED ON NEXT PAGE

1 Generally these are individuals who hold senior positions or senior offices with either Canadian or foreign governments.

2 Which is established by governments of states or head of institutions established by an international organization.

▶ **What is your income?**

▶ Income is part of the determination of your financial circumstances, which in turn is required by securities law to be considered in determining suitability of investments recommended to you. Also this information may be required to determine whether you are eligible to invest.

▶ **What is your spouse's income?**

▶ In cases of investment in prospectus-exempt securities, this information may be required to determine whether you are eligible to invest.

▶ **What is your net worth, net financial assets, total investments in exempt securities (if applicable)?**

▶ These pieces of information are part of the determination of your financial circumstances, which in turn is required by securities law to be considered in determining suitability of investments recommended to you. Also this information may be required to determine whether you are eligible to invest.

▶ **What is your risk tolerance – generally, and specific to this account?**

▶ Risk tolerance is required by securities law for suitability determination.

▶ **What is your time horizon for this account? In other words, when do you need money from the sale of the investments in this account?**

▶ Helps in suitability determination.

▶ **What are your investment objectives for this account?**

▶ Required by securities law and helps your dealing representative determine suitability of proposed investments.

▶ AML Requirements include keeping records of intended use of the account, e.g. investments for eventual payment of children's education, investments for retirement, investments of the retained earnings of a corporation.

▶ **What is your source of funds for your investment?**

▶ AML Requirement.

▶ **Are you borrowing money (using leverage) to pay for this investment?**

▶ Helps in suitability determination.

▶ **Your dealing representative should ask you to sign the form after you have had a chance to review the information for accuracy**

▶ Required to meet AML Requirements, and is good practice in that your dealing representative knows you are in agreement with the information on the form.

You may be asked to confirm receipt of certain disclosures that must be made to you, including:

- ▶ Relationship disclosure information document
- ▶ Relevant offering documents, such as an Offering Memorandum
- ▶ Leverage risk disclosure document, if relevant
- ▶ Referral arrangement agreement, if relevant

Keeping information current

Your dealing representative is generally required to keep your information up-to-date and is required to ensure your information is current at the time of a transaction. You should tell your dealing representative about any major changes in your personal circumstances, such as when you get married, have a child, get a new job or other events that might change suitability recommendations due to a different risk tolerance, financial ability to withstand loss, or change in investment objectives for the account.



What is your role as an investor?

Finding the right dealing representative is important, so take time to conduct due diligence to ensure you are selecting a dealing representative and a firm that are in the best position to help you achieve your investment goals. As a start, you should check to ensure both your dealing representative, and the firm, are registered with the securities commission in your province. You can go online, to checkfirst.ca to check registration status of your dealing representative.

Ask potential dealing representatives about how they would go about meeting your investment needs. What products and services do they offer? Do they specialize in certain kinds of investments or offer a wide range? Given that exempt market dealers cannot offer all the types of investments you are potentially interested in investing in, how will you get access to those products? What fees do they charge? What types of investors are they most experienced in advising? Are they providing you with independent/unbiased advice in relation to the products recommended, or do they sell products of related companies? You may want to check references.

Once you have selected your dealing representative, you must be honest about your investment needs and objectives, risk tolerance, and financial circumstances so that your dealing representative can provide you with suitable investment alternatives and help you reach your investment objectives. Ensure the information on the Know Your Client form is correct. Ensure you keep the firm up to date on any major life events.

It is critical to review documentation provided to you by your dealing representative. Read the relationship disclosure information document carefully and ask questions if you do not understand something; for example, make sure you understand the costs and fees associated with any proposed investment, including any administration fees or deferred sales charges or any embedded fees/charges such as trailer fees or management fees.

Read information about the investments recommended to you. Ask questions about your investments so you understand the decisions you are making. Keep documentation that explains your investments, and consider taking notes of conversations and important information. You are responsible for making the decision on whether to invest in what is recommended to you. You do not have to invest in something recommended to you, especially something that does not meet your investment needs and objectives, risk tolerance, or time horizon. You should also review your trade confirmations and account statements for accuracy. Ask questions if you do not understand something your dealing representative says, or if something you have received in your statements or trade confirmations does not make sense to you.

Visit the ASC's website at www.albertasecurities.com for more information about investing.

If you feel the firm or dealing representative has not met the obligations owed to you, for example, treated you unfairly, or has made an error resulting in financial loss to you, you should communicate your concerns in writing to the firm. If the firm does not resolve your concern, you can communicate your concerns to the Ombudsman for Banking Services and Investments (contact information and how to file a complaint is found at www.obsi.ca), or the firm's regulator.

